Customer Service in the United States

H. W. Stigler
Manager, Customer Service Program
INPUT

Customer Service in the United States

Agenda

- Environment
- IBM Actions
- 1988 Highlights
- Strategic Implications
- U.S. Market Forecast
- Conclusions

INPUT

NOTES:

CSPA-HS-2

Environment

- Technology/architecture
- Support
- Contract coverage
- Warranty
- Vendor services—a key asset
- Marketplace
- User needs vs. service delivered

INPUT

NOTES:

CSPA-HS-3

Technology/Architecture

- Very high reliability/low failure rates
- High speed
- Multivendor architecture support
  - Applications
  - Networks
  - Operating Systems

INPUT

NOTES:

CSPA-HS-4a

Technology/Architecture

- Sophisticated network design and network management tools
- Fewer field replaceable units
- Increased cost per replaceable unit
- Sophisticated diagnostics
- Less on-site skill to service
- Powerful PCs/workstations

INPUT

NOTES:

CSPA-HS-4b

Support

- Remote diagnostics
- Remote system monitoring
- TP distribution for software and microcode
- Problems data base

INPUT

NOTES:

CSPA-HS-5a

Support

- Parts logistics
- Problem management system
- Call management system
- Expert systems

INPUT

NOTES:

CSPA-HS-5b

Vendor Contract Coverage

	Percent
Large systems	90+
Small systems	60+
PC/workstations	20-

INPUT

NOTES:

CSPA-HS-6

Vendor Warranty Coverage

Large systems	
- CPUs	1 Year
- Peripherals	3 Months-1 Year
Small systems	3 Months-1 Year
PCs/workstations	3 Months-1 Year -3 Years-?

INPUT

NOTES:

CSPA-HS-7

Vendor Service—A Key Asset

- Significant revenue source
- Key ingredient in cost of ownership
- Key to account control
- Key to quality product support
- History of high profits

INPUT

NOTES:

CSPA-HS-8

Marketplace

- Discounting of hardware leads to discounting service
- Systems integration leads to multivendor service/ support
- Users releasing RFPs for service

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NOTES:

CSPA-HS-9a

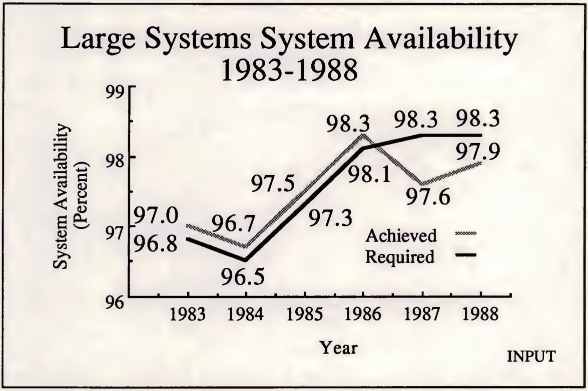
Marketplace

- TPMs very active
- Sellers to buyers market
- Special bids/let's make a deal!

INPUT

NOTES:

CSPA-HS-9b

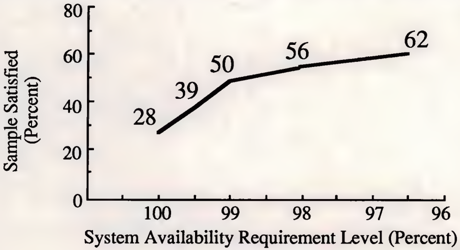


NOTES:

FPRB-25

CSPA-HS-10

System Availability Satisfaction by Requirement Level—All Large Systems



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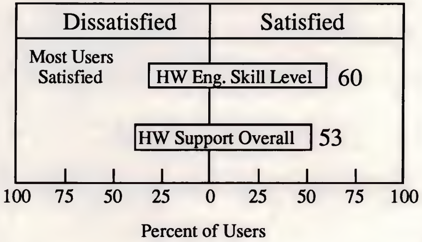
NOTES:

FPRB-26

CSPA-HS-11

Large System User Satisfaction with High-Priority Services



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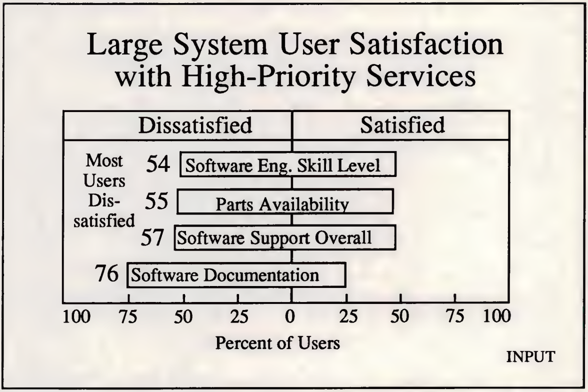
FPRB-29a

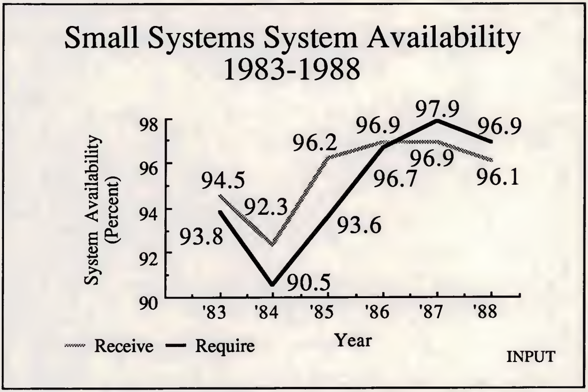
CSPA-HS-12



NOTES:

FPRB-29b

CSPA-HS-13



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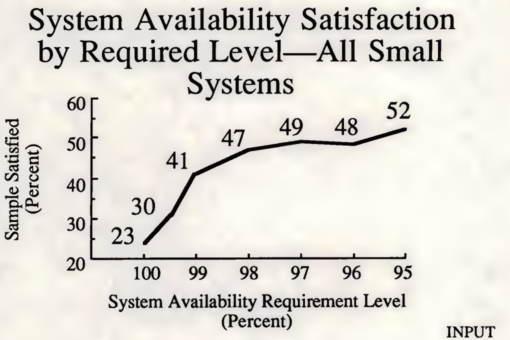
FPRB-40

CSPA-HS-14

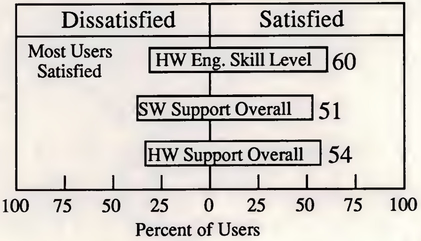


NOTES:

FPRB-41

CSPA-HS-15

Small System User Satisfaction with High-Priority Services



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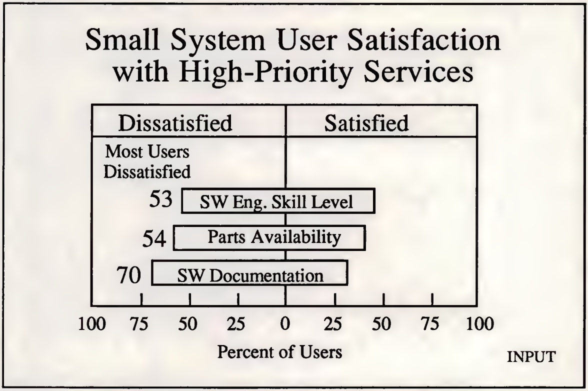
NOTES:

FPRB-44a

CSPA-HS-16



NOTES:

FPRB-44b

CSPA-HS-17

IBM'S Actions
1986-1989

1986

- Corporate service amendment announced
  - Initialization fee and IBM assessment
  - Entire product line except copiers and typewriters

INPUT

NOTES:

CSPA-HS-18a

IBM'S Actions
1986-1989

1986

- OEM support reinstated
  - problem determination
  - personal computers

- LPSA withdrawn (bundled with software license)

INPUT

NOTES:

CSPA-HS-18b

IBM'S Actions 1986-1989

1987

- IBM key goals modified
  - IBM/customer partnership
  - Year of the customer
  - Openness

INPUT

NOTES:

CSPA-HS-19a

IBM'S Actions
1986-1989

1987

- All sales personnel assigned maintenance quotas
  - Marketing support moved to marketing divisions

INPUT

NOTES:

CSPA-HS-19b

IBM'S Actions
1986-1989

1987

- Offering changes
  - Enhanced CSA
  - MRSA
  - Enhanced OEM support (PC and system integration)
  - 4-hour on-site response time
  - 21 shift standard m/a
  - Per call (m-f 7 a.m. to 6 p.m.)
  - 2-hour minimum on every call
  - Limited OTC parts sales/raised fees

INPUT

NOTES:

CSPA-HS-20ab

IBM'S Actions
1986-1989

1987

- HVLC services
  - ° IOR, IOE, and COE only
  - ° National courier service

- Administrative consolidations

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NOTES:

CSPA-HS-21a

IBM'S Actions 1986-1989

1987

- Major non-field headcount reductions
- Midrange customer appreciation program
- New increased field manpower

INPUT

NOTES:

CSPA-HS-21b

IBM'S Actions
1986-1989

1988

- Custom operational services
- IBM buys Pactel's Spectrum Services Division
- A/S 400

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NOTES:

CSPA-HS-22

IBM'S Actions 1986-1989

1988

- Extended maintenance option
- Technical services management
- Telecommunications services, network support

INPUT

NOTES:

CSPA-HS-23

IBM'S Actions
1986-1989

1989

- Service plan
  - All service offerings under one contract

- Estimated billing option

- Extended maintenance option
  - Extended to all except usage products

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NOTES:

CSPA-HS-24ab

IBM'S Actions 1986-1989

1989

- Design and contractor services for data centers
  - Turnkey
  - Evaluation, design, contractor services
- Equipment modification enhancement
- Service director

INPUT

NOTES:

CSPA-HS-25ab

IBM'S Actions 1986-1989

1989

- Remarketer program
  - Customer orders IBM service from remarketer
  - IBM sells to remarketer, who then sells to customer

INPUT

NOTES:

CSPA-HS-25c

IBM's Actions 1986-1989

1989

- Significant improvement in dealer support
  - New NSD director of complimentary channel services
  - Invoke NSD parts system
  - On-site CE support at no charge
  - Return of overstocked parts
  - Increase in number of parts exchanged

INPUT

NOTES:

CSPA-HS-26ab

IBM's Actions
1986-1989

1989

- Entry system service amendment (ESSA)
  - Offered to dealers
  - Dealer resells to user
  - Dealer screen calls, bills user, and collects
  - Discounts up to 46%
    - ° MRSA 25%
    - ° Cluster 10% to 20%
    - ° Marketing 5% to 10%

INPUT

NOTES:

CSPA-HS-26cd

IBM Worldwide

($ Millions)

	1985	1986	1987	1988
Maintenance revenue	6,103	7,413	7,691	7,347
Maintenance cost	2,561	3,032	3,417	N/A
Gross profit (%)	58.0	59.1	55.6	N/A

INPUT

NOTES:

CSPA-HS-27a

IBM U.S.
($ Billions)

	1986	1987	1988
Maintenance revenue	4.0	3.7	3.1

INPUT

NOTES:

CSPA-HS-27b

IBM

	Past	Present
Services	↓	↑
Prices	↑	↓
	Restrictive	
Mixed vendor	↑	↓
		Proactive unrestrictive

INPUT

NOTES:

CSPA-HS-28a

IBM

	Past	Present
Non-field costs	↑	↓
Administrative complexity	↑	↓
Dealer support	↓	↑

INPUT

NOTES:

CSPA-HS-28b

1988: Year in Review
Quarter One

- Sorbus sells MAI business
- Sorbus lays off 600-650
- IBM raises TPM rates 15%, contract rates 7% to 15% on selected products
- IBM announces site services

INPUT

NOTES:

FPRB-5

CSPA-HS-29

1988: Year in Review
Quarter Two

- Datagate suit against HP dismissed
- Dataserv, TSSI announce layoffs
- IBM offers pre-payment discounts
- AS/400 features automated support

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NOTES:

FPRB-6

CSPA-HS-30

1988: Year in Review
Quarter Three

- Bell Atlantic acquires CPX
- DEC announces enterprise-wide services
- TRW acquires 3M TPM service

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NOTES:

FPRB-7a

CSPA-HS-31

1988: Year in Review
Quarter Three

- HP, IBM announce multivendor support
- DG announces multiyear contracts
- IBM, DEC announce new network support

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NOTES:

FPRB-7b

CSPA-HS-32

1988: The Year in Review
Quarter Four

- IDEAssociates acquires Servcom
- Decision Industries merges with Momentum
- DEC changes warranty offerings

INPUT

NOTES:

FPRB-8a

CSPA-HS-33

1988: The Year in Review
Quarter Four

- Bell Atlantic acquires Dynservice
- GECS up for sale
- IBM raises M/A prices 3%

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NOTES:

FPRB-8b

CSPA-HS-34

Strategic Implications Overall

- Reduced revenue and profit opportunities for base maintenance

1st—Service of IBM products
Followed by—Service of all vendors' products

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NOTES:

CSPA-HS-35a

Strategic Implications Overall

- Total cost of ownership reduced

  1st—IBM products
  Followed by—All vendors' products

- User equity will emerge as a key issue as market changes from seller's to buyer's

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NOTES:

CSPA-HS-35b

Strategic Implications Overall

- Key objective of hardware, software, and service vendors should be high availability at lowest cost
- Service offerings will broaden to cover everything a customer needs to achieve high availability at lowest cost
- Cost pressures and economies of scale will result in more mergers and acquisitions

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NOTES:

CSPA-HS-35cd

Strategic Implications Vendors' Focus Items

- Hardware product managers
  - Account control
  - Total cost of ownership (new products)
  - High availability
  - Third-party entry
- Software product managers
  - Improved training, documentation, on-site support

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NOTES:

CSPA-HS-36ab

Strategic Implications
Vendors' Focus Items

- Service operational management
  - Customers' total needs vs. service delivered
  - Marketing of service
  - Cost of service

INPUT

NOTES:

CSPA-HS-36c

Strategic Implications
Vendors' Focus Items

- Service business managers
  - Equity
  - Third-party entry
  - VAR/VAD support
  - Third-party support
  - Broadened offerings
    - ° Multivendor
    - ° Network management
    - ° Ancillary services
  - Reducing administrative complexity

INPUT

NOTES:

CSPA-HS-36de

Strategic Implications
Dealers/VARs' Focus Items

- Profit opportunity for service
- Account control opportunity
- Press for maximum vendor support
  - Training
  - Documentation
  - Proprietary diagnostics
  - Use of support structure
  - Parts logistics
- Broaden offerings to customers' total needs

INPUT

NOTES:

CSPA-HS-37ab

Strategic Implications
TPMs Focus Items

- Mergers/acquisitions
- Sophisticated support will be required to achieve high availability at lowest cost
- Vendor support will decrease, prices will increase

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NOTES:

CSPA-HS-38a

Strategic Implications
TPMs Focus Items

- Key strengths will be full multivendor support and level of service
- Price differential with vendors will decrease

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NOTES:

CSPA-HS-38b

Strategic Implications
Users' Focus Items

- Differences in system availability received
- Differences in support required/ received
- Software education/documentation
- Problem management records
- Equity

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NOTES:

CSPA-HS-39ab

U.S. Customer Service Market

INPUT

FPRB-96

CSPA-HS-40

Service Market Definition

- U.S. service market includes
  - Hardware maintenance
  - Professional services
- Software support separate
  - Cannot separate from software
  - Includes new versions

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NOTES:

FPRB-97

CSPA-HS-41

Forecast Methodology

- 1987 base year
  - Vendor surveys
  - Annual reports
  - 10Ks

- 1988 forecast
  - Vendor surveys
  - Quarterly reports

INPUT

NOTES:

FPRB-98

CSPA-HS-42

Forecast Methodology

- Product categories
  - Installed base
  - Configuration/pricing model
- Forecast 1988-1993
  - Expected product shipments
  - Technology/pricing trends

INPUT

NOTES:

FPRB-99

CSPA-HS-43

Market Analysis and Forecast

- Overview/product category
- Market share
- TPM market
- Fourth-party maintenance
- Professional service
- Software support

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NOTES:

FPRB-75

CSPA-HS-44

U.S. Service Market* 1988-1993

Product	User Expenditures 1988 ($B)	1993 ($B)	88-93 CAGR (Percent)
Large Systems	1.2	1.4	4
Small Systems	3.6	5.1	7
Micro/Workstations	1.1	1.7	10
Peripherals	6.6	8.9	6
Total	12.5	17.1	6

*Does not include software support

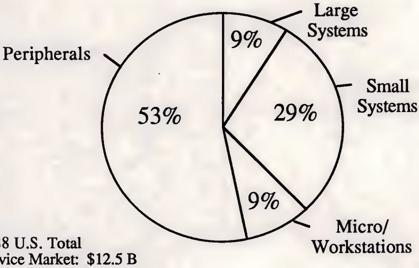
INPUT

NOTES:

FPRB-76

CSPA-HS-45

1988 U.S. Customer Service Market



1988 U.S. Total
Service Market: $12.5 B

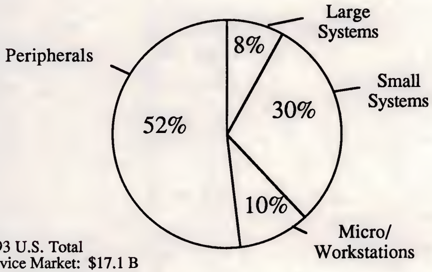
INPUT

NOTES:

FPRB-77

CSPA-HS-46

1993 U.S. Customer Service Market



1993 U.S. Total
Service Market: $17.1 B

INPUT

NOTES:

FPRB-78

CSPA-HS-47

Top Eight Large System* Service Vendors By Market Share

Rank	Company	87 Revs ($M)	Market Share (Percent)
1	IBM	1900	63
2	Unisys	410	14
3	CDC	156	6
4	Amdahl	125	4

*Includes associated peripheral service revenue

INPUT

NOTES:

FPRB-79

CSPA-HS-48

Top Eight Large System* Service Vendors By Market Share

Rank	Company	87 Revs ($M)	Market Share (%) **
5	Honeywell-Bull	120	4
6	NAS	116	3
7	Cray	100	3
8	NCR	75	2

* Includes associated peripheral service revenue
** Manufacturer-supplied market

INPUT

NOTES:

FPRB-80

CSPA-HS-49

Top Ten Small System* Service Vendors By Market Share

Rank	Company	87 Revs ($M)	Market Share (Percent)
1	DEC	1,698	23
2	IBM	1,600	21
3	NCR	900	12
4	Unisys	501	7
5	HP	424	6

*Includes associated peripheral service revenue

INPUT

NOTES:

FPRB-81

CSPA-HS-50

Top Ten Small System* Service Vendors By Market Share

Rank	Company	87 Revs ($M)	Market Share (%) **
6	Data General	261	3
7	Wang	255	3
8	Prime	190	3
9	Honeywell-Bull	160	2
10	AT&T	150	2

* Includes associated peripheral service revenue
** Manufacturer-supplied market

INPUT

NOTES:

FPRB-82

CSPA-HS-51

U.S. TPM Market, 1988-1993

Product	User Expenditures 1988 ($M)	1993 ($M)	88-93 CAGR (Percent)
Large Systems	100	110	2
Small Systems	370	490	6
Micro/Workstations	580	850	8

INPUT

NOTES:

FPRB-83a

CSPA-HS-52

U.S. TPM Market, 1988-1993

Product	User Expenditures 1988 ($M)	1993 ($M)	88-93 CAGR (Percent)
Peripherals	530	640	4
Telecom	150	220	8
Total	1730	2310	6

INPUT

NOTES:

FPRB-83b

CSPA-HS-53

Top Ten TPMs by Market Share

Rank	Company	87 Revs ($M)	Market Share (%)
1	TRW	255	15
2	Sorbus	220	13
3	GE	198	12
4	Intelogic Trace	134	8
5	CDC	100	6

INPUT

NOTES:

FPRB-84

CSPA-HS-54

Top Ten TPMs by Market Share

Rank	Company	87 Revs ($M)	Market Share (%)
6	Servcom	79	5
7	Decision Data	70	4
8	Dataserv	67	4
9	Unisys	45	3
10	Grumman	40	2

INPUT

NOTES:

FPRB-85

CSPA-HS-55

Fourth-Party Maintenance Market

Service	User Expenditures 1988 ($M)	1993 ($M)	88-93 CAGR (Percent)
Refurb	40	90	17
Refeature	10	50	38
Recondition	160	370	19
Total	210	510	21

INPUT

NOTES:

FPRB-86

CSPA-HS-56

U.S. Professional Service Market—1988-1993

	User Expenditures		
Product	1988 ($M)	1993 ($M)	88-93 CAGR (Percent)
Large	350	900	21
Small	400	1050	21
Total	750	1950	21

INPUT

NOTES:

FPRB-87

CSPA-HS-57

U.S. Software Support Market*
1988-1993

	User Expenditures		
Software	1988 ($B)	1993 ($B)	88-93 CAGR (Percent)
Applications	2.2	5.9	22
Systems	2.4	6.2	21
All Software**	4.6	12.1	21

* Includes new versions
** Software support is not included in U.S. customer service market

INPUT

NOTES:

FPRB-88

CSPA-HS-58

Conclusions

INPUT

FPRB-101

CSPA-HS-59

Conclusions

- Customer needs not being met
- System and network availability are objectives
- Software documentation and support are key

INPUT

NOTES:

FPRB-90a

Conclusions

- Term and prepayment discounts will spread
- Selective discounting will increase
- Margins will continue to decline

INPUT

NOTES:

FPRB-90b

CSPA-HS-61

Conclusions

- Complexity issues will become a major problem
- Role of channels will become more important
- Vendors will harden TPM policies

INPUT

NOTES:

FPRB-91a

CSPA-HS-62

Conclusions

- Mergers and acquisitions will continue
- Customer equity will become a key issue
- Service offerings will broaden to achieve high availability

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NOTES:

FPRB-91b

CSPA-HS-63

H.W. Stigler
Manager, Customer Service Program
INPUT

H.W. (Buddy) Stigler is Manager of INPUT's Customer Service Program research. Mr. Stigler brings to INPUT more than 39 years of experience in a diversified career with IBM. His information services and customer service background is vast. Mr. Stigler has been involved in the installation, maintenance, and software support of systems for most of his career. Additionally, he has considerable experience in competitive analysis, customer satisfaction, customer requirements, and needs evaluation. Mr. Stigler has served as a director of planning, measurements, I/S, staff services, offerings, and special bids. He holds a B.S. in electrical engineering from Mississippi State University and an M.S. from MIT (Sloan Fellow) in industrial management.

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H. W. (Buddy) STIGLER
Manager,
Customer Service Program

3/31/89

Memo to: Andrea Jeris

subject = Europe CSPE conference

Attached are the copies of the Europe Conference Slides that I will present. I went thru all my presentations and tried to find slides that were already made where possible —

The presentation is April 19 & 20th. I will be leaving Monday afternoon April 17th —

Please call me if you have questions — I would recommend 2 copies of the slides you make — Please ask London how many handouts and how to incorporate in their Handout book — I have the slides that have already been made.

According to them, they want all slides —

Call me if you have ?'s. I have a copy of what I am sending — Thanks

Buddy

INPUT

PRODUCTION WORK ORDER

(Please fill out both sides)

DATE IN: 4/3 DATE DUE: 4/13 PROJECT CODE: CSPA-HS

AUTHORIZED BY: BUDDY STIGLER ❑ NEW ❑ REPEAT ❑ REPEAT W/CHANGE

WORK SPECIFICATIONS

DATE OF PRESENTATION: 4/19 (UK)

Additional Information

- ☒ 35mm Slides
- ❑ Foils
- ❑ Exhibits
- ❑ Questionnaire
- ❑ Letter
- ❑ Business Card
- ❑ Note Paper
- ❑ Newsletter
- ❑ News Release
- ❑ Form
- ❑ Brochure
- ❑ Cover Design
- ❑ Other

Number of pages submitted ______ Text
______ Graphics

SPECIAL INSTRUCTIONS

MAKE ALL INTO SLIDES

Buddy leaving 17th

PRINTING SPECIFICATIONS

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Quantity/Hard Copy
Paper Size ______ X ______
Finished Size ______ X ______
Number of Pages

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- ❑ Photocopy
- ❑ Single side
- ❑ Double side
- ❑ Three hole punch
- ❑ Velobind punch
- ❑ Trim to ______ X ______
- ❑ Binding
- ❑ Cover
- ❑ Paper Color
- ❑ Ink Color
- ❑ Copyright Paper
- ❑ Fold ❑ 1/2 fold ❑ 1/3 fold
- ❑ Pad
- ❑ Saddle Stitch
- ❑ Box
- ❑ Shrink Wrap
- ❑ Staple ❑ Corner ❑ 2 on side

MAILING SPECIFICATIONS

Envelope: ❑ No. 10 ❑ 9 x 12 ❑ 10 x 13 ❑ Reply Envelope Quantity ______
❑ First Class ❑ Bulk ❑ Address Labels (Zip Code Order)

Enclosures:

- ❑ Letter
- ❑ Questionnaire
- ❑ Newsletter
- ❑ News Release
- ❑ Form
- ❑ Brochure
- ❑ Business Reply Envelope
- ❑ Other

Distribution: Quantity

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PROJECT CODE CSPA - HS

AUTHOR Buddy Stigler

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4/6	Buddy called in CX's	LK	

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CUSTOMER SERVICE IN THE UNITED STATES

~~Customer Service and Support~~

H. W. Stigler
Manager, Customer Service Program
INPUT

1

CUSTOMER SERVICE IN THE UNITED STATES

AGENDA

- ENVIRONMENT
- IBM ACTIONS
- 1988 HIGHLIGHTS
- STRATEGIC IMPLICATIONS
- USA MARKET FORECAST
- CONCLUSIONS

ENVIRONMENT

- Technology/Architecture
- Support
- Warranty
- Contract Coverage
- Vendor Services—A Key Asset
- Marketplace
- User Needs vs. Service Delivered

ENVIRONMENT

7

INPUT

JJ88-HS-3

TECHNOLOGY/ARCHITECTURE

- Very High Reliability/Low Failure Rates
- High Speed
- Multivendor Architecture Support
  - Applications
  - Networks
  - Operating Systems
- Sophisticated Network Design and Network Management Tools
- Fewer Field Replaceable Units
- Increased Cost per Replaceable Unit
- Sophisticated Diagnostics
- Less On-Site Skill to Service
- Powerful PCs/Workstations

INPUT

JJ88-HS-5

SUPPORT

- Remote Diagnostics
- Remote System Monitoring
- TP Distribution for Software and Microcode
- Problems Data Base
- Parts Logistics
- Problem Management System
- Call Management System
- Expert Systems

INPUT

VENDOR CONTRACT COVERAGE

Large Systems	90+%
Small Systems	60+%
PC/Workstations	20-%

INPUT

JJ88-HS-7

VENDOR WARRANTY COVERAGE

Large Systems	
CPUs	1 Year
Peripherals	3 Months-1 Year
Small Systems	3 Months-1 Year
PCs/Workstations	3 Months-1 Year-3 Years-?

INPUT

VENDOR SERVICE—A KEY ASSET

- Significant Revenue Source

	1987 ($ Millions)	Total IS Revenues (Percent)
IBM	7,691	15.2
DEC	3,087	29.7
UNISYS	2,002	22.9
NCR	1,556	30.7

- Key Ingredient in Cost of Ownership
- Key to Account Control
- Key to Quality Product Support
- History of High Profits

INPUT

JJ88-HS-9

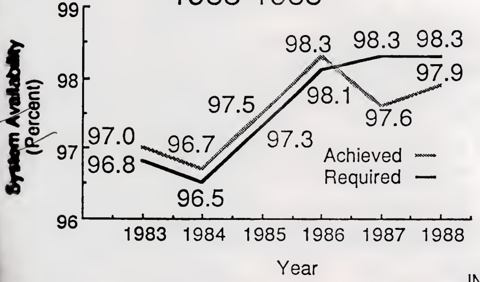
8

MARKETPLACE

- Discounting of Hardware Leads to Discounting Service
- Systems Integration Leads to Multivendor Service/ Support
- Users Releasing RFPs for Service
- TPMs Very Active
- Sellers to Buyers Market
- Special Bids/Let's Make a Deal!

INPUT

Large Systems System Availability 1983-1988



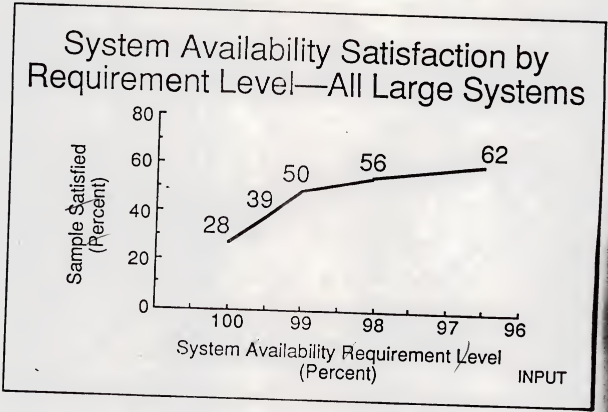
INPUT

USER Needs VS Service Delivered

FPRB 25

(10)

INPUT



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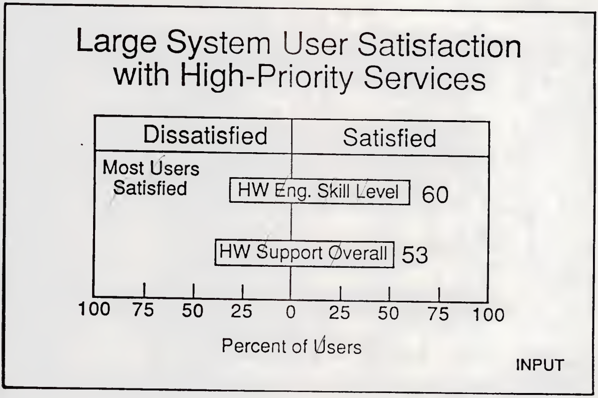
FPRB-26

11



NOTES:

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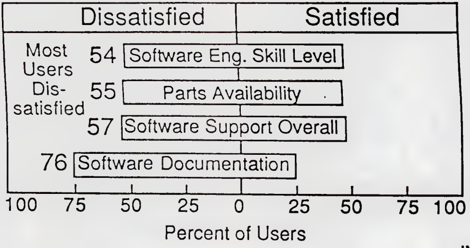
12

Large System User Satisfaction with High-Priority Services



INPUT

NOTES:

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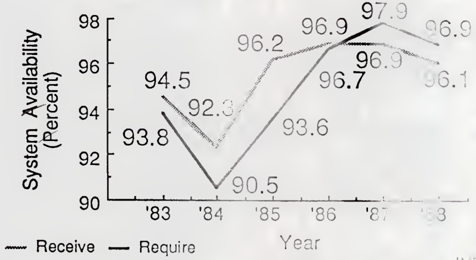
13

Small Systems System Availability
1983-1988



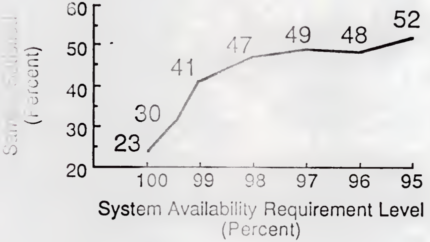
INPUT

NOTES:

FPRB-40

14

System Availability Satisfaction By Required Level All Small Systems



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NOTES:

FPRB 41

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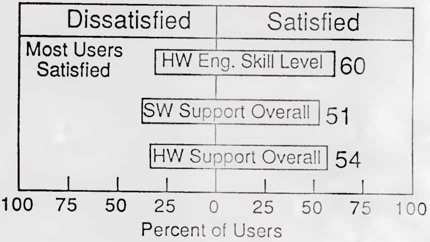
15

15

Small System User Satisfaction with High-Priority Services



INPUT

NOTES:

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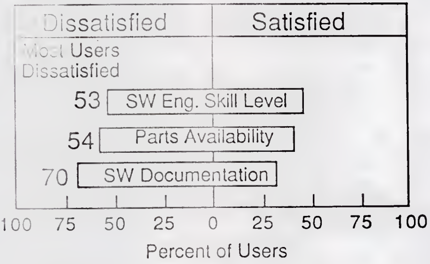
16

Small System User Satisfaction with High-Priority Services



INPUT

NOTES:

RD-44b

17

IBM'S ACTIONS
1986 - 1989

1986

- Corporate Service Amendment Announced
  - Initialization Fee and IBM Assessment
  - Entire Product Line except Copiers and Typewriters
- OEM Support Reinstated
  - Problem Determination
  - Personal Computers
- LPSA Withdrawn (Bundled with Software License)

IBM
ACTIONS
11 SLIDES

INPUT

IBM'S ACTIONS
1986 - 1989

1987

- IBM Key Goals Modified
  - IBM/Customer Partnership
  - Year of the Customer
  - Openness
- All Sales Personnel Assigned Maintenance Quotas
  - Marketing Support Moved to Marketing Divisions

INPUT

IBM'S ACTIONS
1986 - 1989

1987 (continued)

- Offering Changes
  - Enhanced CSA
    - ° 1-, 3-, 5-Year Options
    - ° 21 Shifts at N/C
    - ° Simplified Assessment
    - ° Reduced Withdrawal Terms
    - ° 5-Year Discounts from 19% to 45%
  - MRSA
    - ° 3X, 4300, 9370
    - ° No Initialization Fee
    - ° Customer Certifies Using Procedures
    - ° 3 and 5 Year, 21 Shifts
    - ° 5-Year Discounts from 17% to 30%
  - Enhanced OEM Support (PC and System Integration)
  - 4-Hour On-Site Response Time
  - 21 Shift Standard M/A
  - Per Call (M-F 7 a.m. to 6 p.m.)
  - 2-Hour Minimum on Every Call
  - Limited OTC Parts Sales/Raised Fees

INPUT

IBM'S ACTIONS
1986 - 1989

1987 (continued)

- HVLC Services
  - IOR, IOE, and COE Only
  - National Courier Service

- Administrative Consolidations

- Major Non-Field Headcount Reductions

- Midrange Customer Appreciation Program

- New Increased Field Manpower

INPUT

IBM'S ACTIONS
1986 - 1989

1988

- Custom Operational Services Announced
  - Site Planning/Preparation
  - Cabling
  - Relocation

- IBM Buys Pactel's Spectrum Services Division

- A/S 400 Announced
  - Very Low Service Prices
  - Sophisticated Remote Support

- Extended Maintenance Option Announced
  - Prepayment Discount
  - 3-, 4-, 5-Year Term
  - Selected Machine Types

INPUT

IBM'S ACTIONS
1986 - 1989

1988 (continued)

- Technical Services Management
  - Mixed Vendor Support
  - Repair Coordination
  - Maintenance Coordination
  - Service Management
- Telecommunications Services, Network Support
  - Remote Network Management Assistance
  - Mixed Vendor Coordination
  - Advanced Network Monitoring and Diagnostic Tools

INPUT

IBM'S ACTIONS
1986-1989

1989

- Service Plan
  - All Service Offering under One Contract

- Estimated Billing Option
  - Five-Year Contract with One-Year Increments
  - Fixed Price
  - Single Invoice—Monthly, Quarterly, Semiannual, Annual
  - Enterprise, Establishment, or Customer Number
  - Includes non-IBM Devices

- Extended Maintenance Option
  - Extended to All except Usage Products
  - ~~Three-, Four-, and Five-Year Prepayments~~

INPUT

IBM'S ACTIONS
1986-1989

1989 (continued)

- Design and Contractor Services for Data Centers
  - Turnkey
  - Evaluation, Design, Contractor Services

- Equipment Modification Enhancement
  - Custom-Furnished Parts
  - 308X, System 36, System 38
  - Faster Response Time

- Service Director
  - P/S 2-Mod 80
  - Monitors Log Rec Thresholds
  - Autocalls Support Center
  - Accounts with Over 16 Spindles

- Remarketer Program
  - Customer Orders IBM Service from Remarketer
  - IBM Sells to Remarketer, Who then Sells to Customer

INPUT

IBM's Actions
1986-89

1989 (continued)

- Significant Improvements in Dealer Support
  - New NSD Director of complimentary channel services
  - Invoke NSD Parts system
  - On site CE support at No Charge
  - Return of overstocked Parts
  - Increase in number of Parts Exchanged

- Entry System Service Amendment (ESSA)
  - offered to dealers
  - Dealer resells to user
  - Dealer screens calls, bills user and collects
  - Discounts up to 46%
    - MRSA 25%
    - Cluster 10-20%
    - Marketing 5 to 10%

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IBM WORLDWIDE
$ Millions

	1985	1986	1987	1988
Maintenance Revenue	6,103	7,413	7,691	7,347
Maintenance Cost	2,561	3,032	3,417	N/A
Gross Profit	58.0%	59.1%	55.6%	N/A

IBM U.S.
$ Billions

	1986	1987	1988
Maintenance Revenue	4.0	3.7	3.1

IBM

	Past	Present
Services	↓	↑
Prices	↑	↓
Mixed Vendor	Restrictive ↑	↓ Proactive Unrestrictive
Non-Field Costs	↑	↓
Administrative Complexity	↑	↓
Dealer Support	↓	↑

2 slides

add another set of Arrows!

1988: Year in Review
Quarter One

- Sorbus Sells MAI Business
- Sorbus Lays Off 600-650
- IBM Raises TPM Rates 15%
  Contract Rates 7-15% on Selected Products
- IBM Announces Site Services

INPUT

NOTES:

Customer support Highlights

FPRB-5

1988: Year in Review
Quarter Two

- Datagate Suit against HP Dismissed
- Dataserv, TSSI Announce Layoffs
- IBM Offers Pre-Payment Discounts
- AS/400 Features Automated Support

INPUT

NOTES:

FPRB-6

30

1988: Year in Review
Quarter Three

- Bell Atlantic Acquires CPX
- DEC Announces Enterprise-wide Services
- TRW Acquires 3M TPM Service

INPUT

NOTES:

FPRB-7a

31

1988: Year in Review
Quarter Three

- HP, IBM Announce Multivendor Support
- DG Announces Multi-Year Contracts
- IBM, DEC Announce New Network Support

INPUT

NOTES:

FPRB-7b

32

1988: The Year in Review
Quarter Four

- IDEAssociates Acquires Servcom
- Decision Industries Merges with Momentum
- DEC Changes Warranty Offerings

INPUT

NOTES:

FPRB-8a

33

1988: The Year in Review
Quarter Four

- Bell Atlantic Acquires Dynservice
- GECS up for Sale
- IBM Raises M/A Prices 3%

INPUT

NOTES:

FPRB-8b

34

STRATEGIC IMPLICATIONS

5 slides

STRATEGIC IMPLICATIONS OVERALL

- Reduced revenue and profit opportunities for base maintenance

  1st — Service of IBM products
  Followed by — Service of all vendors' products

- Total cost of ownership reduced

  1st — IBM products
  Followed by — All vendors' products

- User equity will emerge as a key issue as market changes from seller's to buyer's

2 slides

- Key objective of hardware, software, and service vendors should be high availability at lowest cost

- Service offerings will broaden to cover everything a customer needs to achieve high availability at lowest cost

- Cost pressures and economies of scale will result in more mergers and acquisitions

INPUT

STRATEGIC IMPLICATIONS—VENDORS' FOCUS ITEMS

Hardware Product Managers
- Account Control
- Total Cost of Ownership (New Products)
- High Availability
- Third-Party Entry

Software Product Managers
- Improved Training, Documentation, On-Site Support

Service Operational Management
- Customers' Total Needs vs. Service Delivered
- Marketing of Service
- Cost of Service

Service Business Managers
- Equity
- Third-Party Entry
- VAR/VAD Support
- Third-Party Support
- Broadened Offerings
  - Multivendor
  - Network Management
  - Ancillary Services
- Reducing Administrative Complexity

INPUT

STRATEGIC IMPLICATIONS—DEALERS/VARS' FOCUS ITEMS

- Profit Opportunity for Service
- Account Control Opportunity
- Press for Maximum Vendor Support
  - Training
  - Documentation
  - Proprietary Diagnostics
  - Use of Support Structure
  - Parts Logistics
- Broaden Offerings to Customers' Total Needs

won't fit

put these side by side to save space on slide

INPUT

JJ88-HS-34

37

STRATEGIC IMPLICATIONS—TPMs
FOCUS ITEMS

- ~~Reduced Margins Will Result in More~~ Mergers/Acquisitions
- Sophisticated Support Will Be Required to Achieve High Availability at Lowest Cost
    - ~~Remote Support~~
    - ~~Parts Logistics~~
- Vendor Support Will Decrease, Prices Will Increase
- Key Strengths Will Be Full Multivendor Support and Level of Service
- Price Differential with Vendors Will Decrease

INPUT

JJ88-HS-35

STRATEGIC IMPLICATIONS—USERS' FOCUS ITEMS

Differences in System Availability Received

Differences in Support Required/Received

Software Education/Documentation

Problem Management Records

Equity

INPUT

JJ88-HS-36

U.S. Customer Service Market

INPUT

MARKET
19 SLIDES

FPRB-96

40

Service Market Definition

- U.S. Service Market Includes
  - Hardware Maintenance
  - Professional Services
- Software Support Separate
  - Cannot Separate from Software
  - Includes New Versions

INPUT

NOTES:

FPRB-97

Forecast Methodology

- 1987 Base Year
  - Vendor Surveys
  - Annual Reports
  - 10Ks
- 1988 Forecast
  - Vendor Surveys
  - Quarterly Reports

INPUT

NOTES:

FPRB-98

42

Forecast Methodology

- Product Categories
  - Installed Base
  - Configuration/Pricing Model
- Forecast 1988-1993
  - Expected Product Shipments
  - Technology/Pricing Trends

INPUT

NOTES:

FPRB-99

Market Analysis and Forecast

- Overview/Product Category
- Market Share
- TPM Market
- Fourth-Party Maintenance
- Professional Service
- Software Support

INPUT

NOTES:

FPRB-75

44

U.S. Service Market* 1988-1993

Product	User Expenditures 1988 ($B)	1993 ($B)	88-93 AAGR (Percent)
Large Systems	1.2	1.4	4
Small Systems	3.6	5.1	7
Micro/Workstations	1.1	1.7	10
Peripherals	6.6	8.9	6
Total	12.6	17.1	6

*Does not include software support

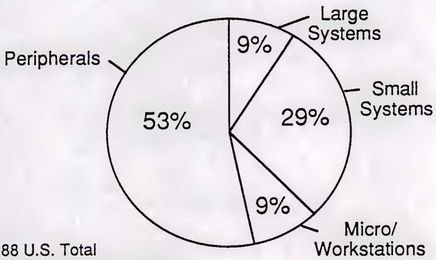
INPUT

NOTES:

FPRB-76

45

1988 U.S. Customer Service Market



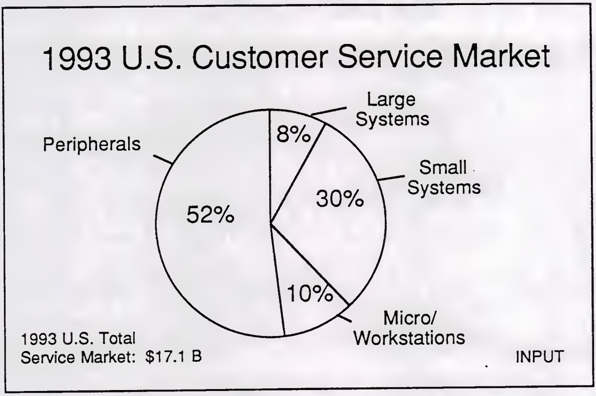
1988 U.S. Total
Service Market: $12.6 B

INPUT

NOTES:

FPRB-77

46



NOTES:

FPRB-78

47

Top Eight Large System* Service Vendors By Market Share

Rank	Company	87 Revs ($M)	Market Share (Percent)
1	IBM	1900	63
2	Unisys	410	14
3	CDC	156	6
4	Amdahl	125	4

*Includes Associated Peripheral Service Revenue

INPUT

NOTES:

FPRB-79

48

Top Eight Large System* Service Vendors By Market Share

Rank	Company	87 Revs ($M)	Market Share (%)**
5	Honeywell-Bull	120	4
6	NAS	116	3
7	Cray	100	3
8	NCR	75	2

* Includes Associated Peripheral Service Revenue
** Manufacturer-Supplied Market

INPUT

NOTES:

FPRB-80

49

Top Ten Small System* Service Vendors By Market Share

Rank	Company	87 Revs ($M)	Market Share (Percent)
1	DEC	1,698	23
2	IBM	1,600	21
3	NCR	900	12
4	Unisys	501	7
5	HP	424	6

*Includes Associated Peripheral Service Revenue

INPUT

NOTES:

FPRB-81

Top Ten Small System* Service Vendors By Market Share

Rank	Company	87 Revs ($M)	Market Share (%)**
6	Data General	261	3
7	Wang	255	3
8	Prime	190	3
9	Honeywell-Bull	160	2
10	AT&T	150	2

* Includes Associated Peripheral Service Revenue
** Manufacturer-Supplied Market

INPUT

NOTES:

FPRB-82

51

U.S. TPM Market, 1988-1993

Product	User Expenditures 1988 ($M)	1993 ($M)	88-93 AAGR (Percent)
Large Systems	100	110	2
Small Systems	370	490	6
Micro/Workstations	580	850	8

INPUT

NOTES:

FPRB-83a

U.S. TPM Market, 1988-1993

Product	User Expenditures 1988 ($M)	1993 ($M)	88-93 AAGR (Percent)
Peripherals	530	640	4
Telecom	150	220	8
Total	1730	2310	6

INPUT

NOTES:

FPRB-83b

53

Top Ten TPMs by Market Share

Rank	Company	87 Revs ($M)	Market Share (%)
1	TRW	255	15
2	Sorbus	220	13
3	GE	198	12
4	Intelogic Trace	134	8
5	CDC	100	6

INPUT

NOTES:

FPRB-84

Top Ten TPMs by Market Share

Rank	Company	87 Revs ($M)	Market Share (%)
6	Servcom	79	5
7	Decision Data	70	4
8	Dataserv	67	4
9	Unisys	45	3
10	Grumman	40	2

INPUT

NOTES:

FPRB-85

Fourth-Party Maintenance Market

Service	User Expenditures 1988 ($M)	1993 ($M)	88-93 CAGR (Percent)
Refurb	40	90	17
Refeature	10	50	29
Recondition	160	370	19
Total	210	510	21

INPUT

NOTES:

FPRB-86

U.S. Professional Service Market—1988-1993

Product	User Expenditures 1988 ($M)	1993 ($M)	88-93 CAGR (Percent)
Large	350	900	21
Small	400	1050	21
Total	750	1950	21

INPUT

NOTES:

FPRB-87

57

U.S. Software Support Market*
1988-1993

	User Expenditures		
Software	1988 ($B)	1993 ($B)	88-93 CAGR (Percent)
Applications	2.2	5.9	22
Systems	2.4	6.2	21
All Software**	4.6	12.1	21

* Includes new versions
** Software support is not included in U.S. customer service market

INPUT

NOTES:

FPRB-88

58

Conclusions

INPUT

Conclusions

5 slides

FPRB-101

59

Conclusions

- Customer Needs Not Being Met
- System and Network Availability Are Objectives
- Software Documentation and Support Are Key

INPUT

NOTES:

FPRB-90a

Conclusions

- Term and Prepayment Discounts Will Spread
- Selective Discounting Will Increase
- Margins Will Continue to Decline

INPUT

NOTES:

FPRB-90b

Conclusions

- Complexity Issues Will Become a Major Problem
- Role of Channels Will Become More Important
- Vendors Will Harden TPM Policies

INPUT

NOTES:

FPRB-91a

Conclusions

- Mergers and Acquisitions Will Continue
- Customer Equity Will Become a Key Issue
- Service Offerings Will Broaden to Achieve High Availability

INPUT

NOTES:

FPRB-91b